

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

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FM AMEMBASSY WARSAW

TO SECSTATE WASHDC PRIORITY 4907

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

C O N F I D E N T I A L WARSAW 7990

E.O. 11652: GDS

TAGS: ENRG, ECON, PL

SUBJECT: POLISH COAL SITUATION

REF: C-ER-6-50576

1. SUMMARY. THE GOP IS ATTEMPTING TO REDUCE DOMESTIC COAL CONSUMPTION TO PROVIDE GREATER AVAILABILITY FOR EXPORTS. MOST OF THE RAPID RISE IN COAL CONSUMPTION IN RECENT YEARS HAS BEEN THE RESULT OF THE EXTRAORDINARY GROWTH IN POLISH INDUSTRIAL CAPACITY AND OF THE CONVERSION OF SOME PETROLEUM-POWERED THERMOELECTRIC PLANTS BACK TO COAL. THE REGIME'S CAMPAIGN TO REDUCE CONSUMPTION IN PRIVATE HOMES CAN BE EXPECTED TO ADD TO THE ALREADY WIDESPREAD GRUMBLING OF CONSUMERS. END SUMMARY.

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2. THE SCARCITY OF COAL IS BEGINNING TO COMPETE WITH THE MEAT SHORTAGE AS A PRIME TOPIC OF COMPLAINT AMONG POLAND'S DISGRUNTLED CONSUMERS. SMALLER AMOUNTS OF COAL ARE BEING SOLD TO PRIVATE HOUSEHOLDERS THROUGHOUT THE COUNTRY, COAL RATIONING HAS BEEN INTRODUCED FOR THEM IN WARSAW. ALTHOUGH A UNIFORM, COUNTRYWIDE SYSTEM OF RATIONING HAS NOT BEEN ANNOUNCED, A RECENT CENSUS WAS REPORTEDLY UNDERTAKEN TO DETERMINE THE NUMBER OF OCCUPANTS RESIDING IN GIVEN PREMISES AND THE NUMBER OF SQUARE METERS OF LIVING SPACE FOR EACH FAMILY. THIS SURVEY COULD BE USED AS A BASIS FOR RATIONING. INDUSTRIAL AND PRIVATE USERS OF ALL FORMS OF ELECTRIC ENERGY ARE BEING ASKED VOLUNTARILY TO CURTAIL THEIR CONSUMPTION. STREET ILLUMINATION HAS BEEN SHARPLY REDUCED IN ALL MAJOR CITIES, AND LIGHTING IN MOST PUBLIC BUILDINGS HAS BEEN DIMMED AS WELL.

3. POLES FIND IT DIFFICULT TO UNDERSTAND HOW THERE CAN BE A SHORTAGE OF COAL IN ONE OF THE WORLD'S CHIEF PRODUCERS OF FOSSIL FUELS. EVEN THOUGH POLISH COAL PRODUCTION HAS INCREASED SIGNIFICANTLY OVER THE PAST TWO YEARS, DOMESTIC CONSUMPTION HAS INCREASED EVEN FASTER. THUS, DECREASING AMOUNTS OF COAL ARE AVAILABLE FOR EXPORT TO EARN THE HARD CURRENCY THAT POLAND NOW NEEDS SO DESPERATELY.

4. POLISH EXPORTS OF COAL DECLINED FROM 40 MILLION TONS IN 1974 TO 38.5 MILLION TONS IN 1975 AND MAY TOTAL ONLY 36 MILLION TONS IN 1976. WHILE EFFORTS TO INCREASE PRODUCTION AT EXISTING MINES SHOULD AUGMENT OUTPUT BY 20 TO 30 MILLION TONS BY 1980, THE CURRENT GROWTH RATE IN COAL CONSUMPTION WOULD ABSORB THAT INCREMENTAL PRODUCTION AND MORE. EVEN THE LARGE INCREASES WHICH WILL RESULT FROM THE OPENING OF THE NEW MINING PROJECTS AT LUBLIN AND BELCHATOW IN 1981 WOULD BE SWALLOWED UP BY DOMESTIC CONSUMPTION AT CURRENT RATES. SINCE COAL EXPORTS EARN ALMOST 25 PERCENT OF POLAND'S HARD CURRENCY, FURTHER REDUCTIONS IN FOREIGN SALES WOULD MAKE THE COUNTRY'S DIFFICULT BALANCE-OF-PAYMENTS SITUATION MUCH WORSE.

5. ABOUT 40 PERCENT OF POLAND'S DOMESTICALLY CONSUMED COAL IS USED IN THE GENERATION OF ELECTRICITY; THE REMAINDER
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IS CONSUMED IN MORE OR LESS EQUAL TWENTY PERCENT SHARES IN THE PRODUCTION OF COKING COAL, FOR HEATING HOMES, AND FOR RUNNING OTHER INDUSTRIES. A LARGE PART OF THE INCREASE IN CONSUMPTION HAS RESULTED FROM THE RAPID INDUSTRIAL EXPANSION OF RECENT YEARS. IF THE ANTICIPATED SLOWDOWN IN POLAND'S RATE OF INDUSTRIAL GROWTH OCCURS, FUTURE INCREASES IN CONSUMPTION SHOULD BE RETARDED. THE ESCALATION OF WORLD PETROLEUM PRICES AND SOVIET UNWILLINGNESS TO

COVER ALL OF POLAND'S BURGEONING PETROLEUM NEEDS HAVE ALSO BOOSTED COAL CONSUMPTION, AS THE GOP HAS TAKEN MEASURES TO CONVERT OIL-BURNING THERMO-ELECTRIC AND INDUSTRIAL PLANTS TO COAL USE WHEREVER POSSIBLE.

6. IN ADDITION TO A REDUCTION IN THE AMOUNT OF COAL AVAILABLE FOR EXPORT, POLAND IS CURRENTLY ENCOUNTERING A SOFTENING IN THE FOREIGN DEMAND FOR ITS COAL. EXCESS STOCKS OF COAL IN THE EC COUNTRIES HAVE RESULTED IN A CUT IN THE DEMAND FOR COAL OF SEVERAL OF POLAND'S MAJOR WESTERN CUSTOMERS. NEVERTHELESS, THE POLISH AUTHORITIES BELIEVE THAT THE LONGER-TERM FOREIGN DEMAND FOR THEIR COAL WILL OUTSTRIP THEIR ABILITY TO PRODUCE EXPORT SURPLUSES.

7. COMMENT: WE DOUBT THAT THE GOP WILL SUCCEED IN ANY SIGNIFICANT WAY IN HOLDING DOWN DOMESTIC CONSUMPTION OF COAL. AT THE SAME TIME, HOWEVER, THE RATE OF INCREASE IN COAL USAGE WILL DECLINE SOMEWHAT IF THE INDUSTRIAL GROWTH RATE IS CUT AND AS THE PROCESS OF SUBSTITUTING COAL FOR PETROLEUM PRODUCTS IS COMPLETED. EVEN WITH SUBSTANTIAL SAVINGS IN COAL USE, POLAND WILL HAVE DIFFICULTY IN MATCHING THE GROWTH IN PRODUCTION REGISTERED IN THE 10-YEAR PERIOD BEFORE 1975, IN WHICH SEVERAL MILLION ADDITIONAL TONS OF COAL BECAME AVAILABLE FOR EXPORT EACH YEAR. ANOTHER COMPLICATING FACTOR IN POLAND'S COAL PICTURE IS THAT MORE THAN ONE-THIRD OF ITS COAL EXPORTS GO TO THE CEMA COUNTRIES; THE USSR ALONE ACCOUNTS FOR IMPORTS OF NEARLY TEN MILLION TONS. IF THE SOVIET UNION WERE DISPOSED TO ASSIST POLAND IN ITS CURRENT HARD-CURRENCY PLIGHT, IT MIGHT AGREE TO PERMIT THE POLES TO MARKET SOME OF THIS COAL IN THE WEST. AT CURRENT PRICES, 10 MILLION TONS OF COAL COULD EARN AS MUCH AS \$300 MILLION IF THE POLES WERE ABLE TO SECURE MARKETS IN THE FACE OF THE CURRENT SOFT DEMAND FOR COAL.
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8. SQUEEZING CONSUMERS AT THIS CRITICAL JUNCTION ALSO HAS ITS RISKS, AS THE GIEREK REGIME FULLY REALIZES. COAL WILL HAVE TO BE CAREFULLY DISTRIBUTED IF THE GOVERNMENT IS TO AVOID A REPETITION OF THE HOARDING AND BLACK MARKETEERING THAT ULTIMATELY LED TO RATIONING IN THE CASE OF SUGAR.
END COMMENT.

9. THIS MESSAGE WAS PREPARED BEFORE THE RECEIPT OF STATE 271995. WE WILL RESPOND TO THE ADDITIONAL QUESTION RAISED IN THAT TELEGRAM EARLY NEXT WEEK.
DAVIES

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